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**Department of Natural  
Resources and  
Conservation**

This report documents the results of our financial-compliance audit of the Department of Natural Resources and Conservation (department) for the two fiscal years ended June 30, 2006. The previous report contained fifteen recommendations to the department. The department implemented twelve, partially implemented one, and did not implement two of the recommendations.

This report contains eight recommendations and one disclosure issue. The recommendations address trust land administration practices that violate trust agreements, trust duty, and state law; improper use of appropriation authority and compliance with state law. The disclosure issue addresses the basis used to calculate the Trust Land Administration Account maximum appropriation and deposit amounts for the Capitol Building Trust. The department's written response to the audit recommendations begins on page B-3.

We issued a qualified opinion on the financial schedules contained in the report. This means the reader should use caution when relying on the financial information presented and the supporting accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department:

- A. Seek legislation to provide a funding source for the administrative costs of the Morrill Trust.

Department Response: Concur. See page B-3.

- B. Seek legislation to exclude the Morrill Trust from administrative account deposit requirements.

Department Response: Concur. See page B-3.

- C. Repay the \$507,643 inappropriately withheld from Morrill Trust revenues, plus accrued interest, to the Morrill Trust and its beneficiary, Montana State University.

Department Response: Partially concur. See page B-3.

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- D. Repay the \$244,900 inappropriately withheld from Common School, University of Montana, Montana State University – second grant, Montana Tech, State Normal School, School for the Deaf and Blind, State Reform School, and Capitol Building Trust revenues, plus accrued interest, to the trusts and their beneficiaries. .... 10

Department Response: Partially concur. See page B-3.

### Recommendation #2

We recommend the department:

- A. Establish procedures to allocate administration costs affecting a single trust to the affected trust.

Department Response: Concur. See page B-3.

- B. Repay the \$15,406 inappropriately withheld from University of Montana, Montana State University – second grant, Montana Tech, State Normal School, School for the Deaf and Blind, and Capitol Building Trust revenues, plus accrued interest, to these trusts and their beneficiaries..... 12

Department Response: Concur. See page B-3.

### Recommendation #3

We recommend the department:

- A. Seek legislation to establish a mechanism for funding the Trust Land Administration Account when initial allocations exceed maximum deposit amounts.

Department Response: Concur. See page B-4.

- B. Repay the \$215,631 inappropriately withheld from Common School Trust revenues, plus accrued interest, to the Common School Trust and its beneficiaries. .... 13

Department Response: Do not concur. See page B-4.

### Recommendation #4

We recommend the department:

- A. Maintain expenditure records in sufficient detail to identify the administration costs incurred for the benefit of each trust, and

Department Response: Concur. See page B-4.

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- B. Evaluate the expenditure data to ensure each land trust's administration charges are reasonable and, if necessary, develop another allocation method that results in reasonable charges. .... 16

Department Response: Concur. See page B-4.

### Recommendation #5

We recommend the department discontinue diverting revenues of one trust to pay administrative costs allocated to other trusts ..... 18

Department Response: Concur. See page B-4.

### Recommendation #6

We recommend the department limit charges to its appropriations to purposes specified in appropriation laws. .... 18

Department Response: Concur. See page B-4.

### Recommendation #7

We recommend the department process surface and ground water rights applications in the timeframes required by state law. .... 19

Department Response: Concur. See page B-5.

### Recommendation #8

We recommend the department comply with section 17-1-102, MCA, by establishing procedures to ensure distributions of unrealized investment losses are properly classified on the state's accounting records. .... 20

Department Response: Concur. See page B-5.